

GAIL (India) Ltd

₹ 333

EXPANDING...**Accumulate**

Gateway to Prosperity

July 19, 2013

Company Background

GAIL (India) Ltd was incorporated in 1984 as a Public Sector Undertaking (PSU) under the Ministry of Petroleum & Natural Gas. GAIL is a dominant player in India involved in business of sourcing, transportation, distribution, and processing of natural gas in India. The company owns 11,000 kms of natural gas pipelines. GAIL has also forward integrated itself by putting a LPG-separation plant, a 440 KTPA of ethylene gas-based cracker and further downstream Polyethylene. The firm dominates the city gas distribution business as it either has stakes in the CGD entities or runs the same through its 100% subsidiary Gail Gas Ltd. GAIL is also involved in natural gas trading, where it sources gas from domestic producers and also imports LNG and sells it to domestic customers.

Key Highlights

- ➔ GAIL operates in the Energy - Gas segment, much of which is inherently scheduled to grow due to its inherent advantages and GAIL is ready for it.
- ➔ GAIL is in the middle of a capex cycle. It is executing pipeline projects totaling INR303bn, to be completed by FY14. GAIL will double capacity by FY14.
- ➔ Pata Petchem Expansion is expected to be mechanically complete by Nov-2013. Company expects to save ~INR5bn of the planned capex of INR82bn. Assam Gas Cracker is expected for full commissioning by March/April 2014. OPAL is expected to commission in FY15.
- ➔ GAIL plans to spend INR54bn in FY14 and has also earmarked INR15bn for likely M&A deals. Planned capex for FY15 and FY16 stands at INR35bn and INR20bn respectively.
- ➔ GAIL brought in 12 spot LNG cargoes in FY12 and plans to bring in 34 cargoes in FY14 and of these 17 will be brought at Dahej and rest at Dabhol.
- ➔ In FY13, GAIL commissioned new 1,800km pipeline network with 34mmscmd capacity. Its current capacity stands at ~210mmscd. Myanmar Gas production is expected to start in July 2013.
- ➔ GAIL operates a CGD network in several key cities via 12 JVs and plans to add 130 cities over 6-7 years. It has stake in 27 E&P blocks in India and overseas and has encountered hydrocarbon finds in five of its blocks.

Key Financials

Year Ended 31 st	Mar 10	Mar 11	Mar 12
Revenue (INR mn)	46,551.8	48,275.0	49,215.5
Rev. growth (%)	3.38	29.11	23.82
EBITDA (INR mn)	55,528.2	61,425.7	67,522.9
Net profit (INR mn)	31,398.4	35,611.3	36,538.4
Shares outstanding (mn)	1,268.5	1,268.5	1,268.5
EPS (INR)	24.8	28.1	28.8
EPS growth (%)	11.99	13.42	2.60
P/E (x)	16.6	16.6	13.0
RONW (%)	20.1	19.8	18.5
ROCE (%)	18.5	17.9	15.6

Nishant Chopra

nishantc@indiratrade.com

Info Codes

Reuters	: GAIL.BO
Bloomberg	: GAIL@IN
NSE	: GAIL
BSE	: 532155

Market Data

52 Wk Range (₹)	: 276 / 396
Shares in Issue (mn)	: 1268.5
Mkt. Cap (₹ bn)	: 421.9
BSE 2 Wk Avg Vol	: 45000

Share Holding Pattern (%)

Promoters	: 57.34
DII's	: 22.25
FII's	: 16.34
Others	: 04.07

Investment Theme

Demand for gas is set to grow faster due to the inherent advantages of gas over other fossil fuels and infrastructural bottlenecks being eased due to large investments being made in the gas sector. Earlier, energy-intensive sectors like fertilizers, powergeneration, & refining have been restricted /forced to use liquid fuels (fuel oil and naphtha) due to paucity of gas. But, with the setting up of the national gas grid and availability of imported gas, more industries will be able to use gas as fuel. GAIL has 5 approved (by MoPNG before the PNGRB), un-built pipelines; which have been assured 12% post-tax ROCEs with uncapped leverage, while all future pipelines will have bidding based tariffs. This single-window opportunity to take advantage of higher tariffs (due to the high, assured returns) during a strong volume growth period, provide upsides to GAIL's earnings.

Geatting Bigger & Bigger Everyday

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 10	Mar 11	% Chg	Mar 12	% Chg
Total Sales + Excise	253758.0	329849.7	29.99	409390.0	24.11
Other Income	5168.3	4193.2	(18.87)	3015.0	(28.10)
Change in Stocks	205.9	1324.9	543.47	4977.5	275.69
Raw Material Con.	23987.9	24171.6	0.77	27622.4	14.28
Employee Exp.	6175.0	7322.5	18.58	6204.7	(15.27)
Indirect Taxes	14075.5	9350.2	(33.57)	12263.7	31.16
Other Exp.	159406.1	233452.9	46.45	303953.2	30.20
Operating Exp.	203438.6	272972.3	34.18	345066.5	26.41
Operating Profit	50319.4	56877.4	13.03	64323.5	13.09
Total Interest	700.0	861.6	23.09	1289.7	49.69
Gross Profit	54787.7	60209.0	9.90	66048.8	9.70
Net Dep.	9208.9	7850.9	(14.75)	13871.7	76.69
Total Taxation	14180.4	16746.8	18.10	15638.7	(6.62)
Net Profit/Loss	31398.4	35611.3	13.42	36538.4	2.60

4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 st	Mar 09	Mar 10	Mar 11	Mar 12
SOURCES OF FUNDS	159,697.6	182,793.8	215,633.4	269,713.3
Equity Share capital	12,684.8	12,684.8	12,684.8	12,684.8
Share Application Money	0.0	0.0	0.0	0.0
Preference Share Capital	0.0	0.0	0.0	0.0
Reserves & Surplus	135,011.5	155,305.2	179,848.6	203,560.0
Long Term Loans	12,001.3	13,603.8	20,900.0	51,268.5
Short Term Loans	0.0	1,200.0	2,200.0	2,200.0
USES OF FUNDS	159,697.6	182,793.8	215,633.4	269,713.3
Gross Block	176,039.8	210,376.7	221,443.8	263,045.1
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	85,536.6	91,065.7	97,408.1	104,468.9
Net Block	90,503.2	119,311.0	124,035.7	158,576.2
Capital Work in Progress	24,263.3	23,304.9	58,461.5	79,424.5
Investments	17,372.7	20,730.3	25,825.2	35,489.3
Current Assets	125,220.3	140,521.1	119,304.3	145,357.7
Less : Current Liabilities	97,661.9	121,073.5	111,993.3	149,134.4
Total Net Current Assets	27,558.4	19,447.6	7,311.0	(3,776.7)
Misc. Expenses not written	0.0	0.0	0.0	0.0
NOTE				
Bk Val Unquoted Investments	8,979.6	12,397.2	17,492.1	27,156.2
Mkt Val. Quoted Investments	49,059.4	75,805.3	85,573.9	88,141.3
Contingent Liabilities	123,030.7	153,620.5	184,686.4	222,765.9
Dividend (%)	75	75	87	96

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Jun 12	Sep 12	Dec 12	Mar 13
Net Sales	111,120.00	113,929.30	125,215.40	124,707.00
Cost Of Sales	91,895.10	99,809.00	105,479.60	112,719.30
Operating Profit	19,224.90	14,120.30	19,735.80	11,987.70
Recurring Income	378.00	2,367.80	1,826.90	2,695.90
Adjusted PBDIT	19,602.90	16,488.10	21,562.70	14,683.60
Financial Expenses	587.80	261.20	551.80	549.40
Depreciation	2,169.20	2,490.70	2,423.90	2,725.60
Other Write Offs	0.00	0.00	0.00	0.00
Adjusted PBT	16,845.90	13,736.20	18,587.00	11,408.60
Tax Charges	5,508.10	4,332.20	5,738.40	5,109.90
Adjusted PAT	11,337.80	9,404.00	12,848.60	6,298.70
Non Recurring Items	0.00	449.80	0.00	(116.90)
Other Non Cash Adjust	0.00	0.00	0.00	0.00
Net Profit	11,337.80	9,853.80	12,848.60	6,181.80

52 Week Index Relative Percentage Appreciation



GAIL vs SENSEX vs Oil Gas vs PSU

Risks Associated

- The reduction in volumes from KGD6 has reduced the transmission volumes to 99 mmscmd from 120 mmscmd. Incremental production from fields of ONGC and Dahej and Kochi terminal expansions are not expected to fetch significant volumes for GAIL in next couple of years. Besides, probable domestic gas price hike is expected to shrink Petchem and LPG margins and negate increase in profitability due to reduction in subsidy burden and petchem expansion.
- Gail India has been primarily meeting demand for core sectors through its pipelines from the domestic fields of Mumbai and KG Offshore. However, as the domestic gas production weakens in the next few years, transmission volumes of Gail India is expected to be under pressure. The demand from noncore sectors is unlikely to make a meaningful chunk of volumes for an existing capacity of 200 mmscmd and upcoming capacity of 220 mmscmd.
- Softening crude oil price is expected to trim petchem and LPG, LH realizations. Any price hike in the domestic gas is expected to shrink the margins further as LPG extraction and polymer units use domestic gas for extraction.
- The volumes are expected to stay lull until there is a substantial increase in the domestic production and some drastic reforms within the core segment users (Power and Fertilizer). The margins are expected to shrink as the trading margins are at peak and petchem and LPG margins are likely to be under pressure as domestic gas price gets hiked.
- Gail India has underperformed Sensex significantly in last one year on account of drop in KGD6 output by ~40 mmscmd, and no significant addition in the volumes from alternative resources. Anticipation over gas price hike dented the valuations further. Things are not expected to change drastically in near term. Gas price hike is unlikely to result into higher volumes before 2-3 years. The immediate impact may be seen on the margins of other businesses.

In a Nutshell

GAIL (India) Ltd is India's leading integrated natural gas company with a presence in transmission, gas trading, gas processing, LPG production & transmission, petrochemicals and oil & gas exploration & production (E&P). It has a pan-India presence, operating a gas transmission network of ~11000 km with a capacity of 210 mmscmd. GAIL's transmission and gas trading volumes stood at ~104.9 mmscmd in FY13. It has seven liquid hydrocarbon processing plants across India with a production capacity of ~1.4 MTPA. GAIL produces close to 20% of the total poly-ethylene produced in India. GAIL's current capacity stands at 4,50,000 tpa of polymers. It also has a 70% stake in Brahmaputra cracker in Assam and 17% stake in ONGC's petrochemical-cum-cracker plant at Dahej SEZ. GAIL is also involved in city gas distribution, E&P and power businesses through its joint ventures. As a strategy of going global and further expanding global footprint, it has formed a wholly-owned subsidiary company, GAIL Global (Singapore) Pte Ltd. for pursuing overseas business opportunities including LNG & petrochemical trading. GAIL has also established a wholly owned subsidiary, GAIL Global (USA) Inc. The US subsidiary has acquired 20% working interest in an unincorporated joint venture with Carrizo Oil & Gas Inc in the Eagle Ford shale acreage in Texas. In addition to having two wholly owned subsidiaries in Singapore & USA, GAIL has a representative office in Cairo, Egypt to pursue business opportunities in Africa and Middle East. GAIL is a part of consortium in two offshore E&P blocks in Myanmar and also holds participating interest in the joint venture company – South East Asia Gas Pipeline Company Limited incorporated for transportation of gas to be produced from Myanmar to China.

Indira Group Offices

Registered Office	: Singh House, 3rd Floor, 23/25 Ambalal Doshi Marg, Fort, Mumbai 400023
	Tel : +91-22-22656812 Fax : +91-22-22656985 Email : im@indiratrade.com
Administrative Office	: Ramavat House, E-15 Saket Nagar, Indore 452018
	Tel : +91-731-2566361 Fax : +91-731-2562117 Email : ii@indiratrade.com
Institutional Dealing Unit	: Africa House, 3rd Floor, 5 Topiwala Lane, Lamington Road, Mumbai 400007
	Tel : +91-22-30080675 Fax : +91-22-23870767 Email : ie@indiratrade.com

Rating Interpretation

Buy	: Expected to appreciate 20% or more over 12-months	Reduce	: Expected to depreciate up to 10% over 12-months
Accumulate	: Expected to appreciate 10% to 20% over 12-months	Sell	: Expected to depreciate 10% or more over 12-months
Trade Buy	: Expected to appreciate more than 10% over 45-days	Trade Sell	: Expected to depreciate more than 10% over 45-days

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